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The Alliance for Progress and Today's Development Policy

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Following is an address by Elliott Abrams, Assistant Secretary for Inter-American Affairs, before the conference on "The Alliance for Progress Twenty-five Years Later" organized by the Center for Advanced Studies of the Americas, Washington, D.C., March 13, 1986.

In 1958, Presidents Juscelino Kubitschek of Brazil and Dwight Eisenhower of the United States exchanged letters in which they agreed that regional cooperation should be broadened to stimulate more rapid development. Kubitschek had in mind "Operation Pan America," which he envisaged as a plan going beyond even the Marshall Plan in promoting economic and social progress.

The foreign ministers of Latin America and the United States established a Committee of Twenty-One to study the Brazilian proposal. One of the results of the committee's work was the launching of the Inter-American Development Bank (IDB). Dr. Milton Eisenhower expressed this growing interest in hemispheric development when he strongly urged his brother to increase the flow of development capital into Latin America.

Then, 25 years ago today, John F. Kennedy called for an Alliance for Progress, which he defined as, and I quote:

> ...a vast cooperative effort, unparalleled in magnitude and nobility of purpose, to satisfy the basic needs of the American people for homes, work and land, health and schools—*techo, trabajo y tierra, salud y escuela.*

President Kennedy's call marked the beginning of a magnificent undertaking. It took tremendous optimism and political cooperation to attempt to speed up the development of an entire continent and to attack longstanding economic and social inequities. The alliance earned a unique place in the history of inter-American relations. The celebration of its 25th anniversary is well deserved.

Then and Now

Today, our attention is again focused on the nearer parts of this hemisphere. Some of the causes of our earlier concern are still with us, such as inequitable income distribution and the Cuban threat to the peace and stability of the continent.

But Latin America itself has changed much in the last 25 years. And with those changes must come new ways of dealing with the new obstacles to growth and to democracy that we face today.

What are some of the differences between the situation 25 years ago and the situation today?

Thanks in part to the Alliance for Progress, some of the changes are both remarkable and positive.

- Despite recession and crisis in the past several years, over the past 25 years the real economic product of the Latin American region has increased fourfold in aggregate terms and doubled on a per capita basis.
- Latin America's population is now almost two-thirds urban and almost three-fourths literate.
- Life expectancy at birth has gone up from 56 years in 1960 to 65 today; infant mortality rates have fallen by 40%.
- Women have moved massively into the labor force and the educational system.
- In the larger countries, almost 90% of all households have radios, and almost half have television sets.
- Industry accounts for a share of the GNP [gross national product] similar to agriculture, and electric power generating capacity is doubling every 6 years.
- Improvements in transportation and communications are bringing the region together and are simultaneously incorporating the region into the world economy.

There are some equally dramatic negative differences. Foreign debt in 1961 came to about $10 billion; today it totals $380 billion; 10 of the 15 largest debtor nations in the developing world are in Latin America. Servicing the debt greatly reduces, where it does not completely consume, the resources needed for development.

As an aside, I might note that perhaps we should not curse the debt problem completely. It has had the salutary effect of underscoring the interdependence of the United States and Latin America. The recognition of this interdependence and of the concomitant imperative of cooperation could remind us of the spirit of common effort that marked the alliance.

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The rate of population growth in Latin America has put strains on the social fabric almost as impressive as those created by debt. Where the region counted 209 million people in 1961, the same land mass must now support more than 412 million people, virtually double the total at the start of the alliance.

Population growth has coincided with a massive migration from the rural areas to the cities of Latin America. Because cities have traditionally received the lion's share of resources, some migrants may actually have improved their lot. But the migration from rural areas has led governments to devote still more resources to the urban areas, amplifying the distortion against rural areas, harming agriculture at the same time that the new urban concentrations were creating a need for increased food imports. The speed of this urban growth has also contributed to overcrowding and unemployment, as housing infrastructure and job creation have lagged behind the influx of newcomers.

Democracy and Its Contributions

These positive and negative changes have often been accompanied by social tension or ideological extremism. But one cannot talk about how Latin America differs now from 1961 without referring to the growth of moderating forces and a gradual strengthening of democratic practices. True, Cuba has become consolidated as a Soviet base and is a critical source of organized violence. But otherwise only a few isolated countries of the region remain actively antidemocratic. More than 91% of the people in Latin America and the Caribbean now live in countries with governments that are democratic or largely so.

This upsurge in democratic practices strengthens our ability to cooperate with our neighbors. It is infinitely easier to work with governments that truly represent and speak for their people.

The growth of democracy and greater recognition of our economic interdependence have helped build more equal hemispheric relationships. It is far easier to undertake the necessary reforms if they are not the result of pressure from a "big brother."

One criticism made of the alliance is that it relied too heavily on bilateral aid. It is true that U.S. bilateral aid has declined in per capita terms. But U.S. assistance to Latin America in 1985 reached $1.5 billion, only slightiy less than the equivalent amounts during the 1960s. At the same time, World Bank and IDB lending to Latin America has gone from $6.6 billion between 1961 and 1970 to $51.2 billion from 1971 to 1984.

Even allowing for the recent concentration of U.S. bilateral assistance to Caribbean Basin countries, the change in the mix of bilateral and multilateral aid means that U.S. support for development in the hemisphere as a whole continues at high levels. In fact, when the U.S. contributions of between 20% and 40% of the capital of the World Bank and the IDB are considered, overall U.S. aid to Latin America today is significantly larger than it was during the alliance.

Lessons

In the past 25 years, it is not only Latin America that has changed. So has the state of our knowledge about the process of development. What are the lessons that we have learned over the past quarter century? Let's look at some of them.

The President's Council of Economic Advisers and individual scholars like Professor Jeffrey Sachs at Harvard have recently provided important insights into the lessons to be drawn from the economic experience of both the developed and developing countries. I commend their research to you. But let me just mention a few key points.

First, exchange rates. When market exchange rates are not maintained, domestic inflation transforms initially appropriate nominal exchange rates into substantially overvalued exchange rates. When this happened in a number of Latin American countries in the late 1970s and early 1980s, exports became less competitive, imports were overly stimulated, and foreign debt often increased.

Second, general price inflation. Except in the short term, a rapid rate of inflation is generally associated with relatively poor growth performance. In the industrial countries high inflation generally brought less growth in the 1970s and 1980s than in the lower inflation 1950s and 1960s. In the developing countries, there has been high growth even with inflation rates in the range of 20%–50%, but inflation rates higher than this have inevitably led to economic disruptions.

Third, international trade policy. An outward-looking, open policy that promotes exports and international trade is conducive to rapid economic growth. Relatively inward-looking policies concentrated on import substitution have resulted in costly inefficiencies.

This is one of the key conclusions of Jeffrey Sachs in comparing East Asia with Latin America. Although both regions received comparable external economic shocks in the late 1970s and early 1980s, and both had relatively similar ratios of debt to GDP [gross domestic product], East Asia generally promoted exports and maintained competitive exchange rates—and achieved significantly higher growth rates than did Latin America.

Fourth, incentives through relative prices. This is crucial in all countries, developed and developing. Where individuals have freedom of choice, they will respond to relative price incentives in deciding on consumption, saving, and in offering their services. This has often been overlooked in countries with a wide disparity in per capita incomes and always with lamentable results.

In developing countries prices of agricultural commodities have often been held down in the presumed interests of low income groups. However this is attempted, it generally shifts production toward crops with higher market prices or toward a return to subsistence agriculture, producing serious declines in the national food supply and a black market.

Fifth, fiscal discipline. Experience does not prescribe an exact size for the public sector or a specific limit on the fiscal deficit. But nations that run large and persistent deficits at unsustainable levels (e.g., 8%–10% or more of GDP) inevitably suffer great difficulties when they stop living beyond their means. It is important to recognize that the hangover is the result of the binge and not of going on the wagon.

I have listed these lessons separately, but much of the research on the experience of economic development speaks of them as parts of a whole. Turned into a general approach, they generate confidence among both domestic and foreign investors. When this approach is lacking, and when there is too much regulation or state planning, the result has often been capital flight. Conservative estimates suggest that more than $100 billion of Latin American capital has fled since the late 1970s. A recent study concluded that in the 10 major Latin American debtor nations, of the $44.2 billion in new net borrowing which was arranged during the period 1983–85, $30.8 billion, or nearly 70%, was negated by capital flight. In some countries this hemorrhaging continues.

It is difficult to expect significant new foreign capital flows under such conditions.

Action

The challenge we now face is analogous to that faced by the founders of the alliance: how to apply ourselves to the problems the hemisphere faces today. We must do so with the full realization that both developed and developing countries have obligations.

Trade. One of our major responsibilities in the United States is to continue to provide access to the U.S. market—the largest single market in the world and the most dynamic in recent years. We have done that for Latin America. From a trade surplus of $1.4 billion with Latin America in 1981, the United States has gone to deficits of $6 billion, then $18, $21, and $19 billion. This is typically forgotten when commentators criticize U.S. trade practices only to ignore those of Europe, whose imports from Latin America are a fraction of ours.

U.S. support for free and fair trade and President Reagan's steps to back up his commitment to it have not always been popular here at home. Our domestic shoe industry clamored to keep out rapidly growing imports that would have cost Brazil alone up to some $300 million annually in current export sales. The President ruled against the recommended quotas.

Another example is copper, where America's mines have fallen on hard times. The copper mining industry has pressed for barriers against foreign competitors and claimed, contrary to the evidence at hand, that Chilean copper benefits from government subsidies. In 1984, the President rejected protectionist restrictions.

The Textile and Apparel Trade Enforcement Act of 1985 came encumbered with barriers to trade in copper and shoes. The Administration fought hard against the severe restrictions the bill would have imposed on all textile trade. At the same time, we pledged that we would try to hold the line on imports from well-developed and low-cost textile industries but would consider import growth from developing nations. The battle on the Hill was fierce. The bill passed both houses of the U.S. Congress. On December 17, 1985, President Reagan vetoed it.

The Caribbean Basin Initiative. The five principles I mentioned a few moments ago also underlie the Caribbean Basin Initiative (CBI). The CBI is primarily a program of trade preferences, complemented by aid and investment promotion.

The trade provisions of the CBI (one-way free trade for most products from the region for 12 years) began to be implemented in January 1984. Although our traditional imports from the Caribbean have fallen, nontraditional items have been growing. Thus, our major specific objective for the CBI—broadening and diversifying the production and export base of the region—is being fulfilled.

But that is only a beginning. The rewards of the CBI—increased exports, expanded and diversified production, job creation—will go to those countries that have economic policies that encourage investment, efficiency, and innovation. For the CBI to be fully successful, the region must compete effectively in the international marketplace.

The Central America Initiative. The recommendations of the National Bipartisan Commission on Central America called for greatly increased aid levels but explicitly recognized that aid alone cannot produce development. The assistance we are providing is, therefore, conditioned on concrete steps toward market exchange rates, liberalized trade, encouraging domestic and foreign investment, removing policies which distort relative prices, and reducing fiscal deficits.

We do not expect overnight results, especially given the security situation in the region, but our policies are reinforcing democratic trends and, we believe, laying the foundations for sustained growth in Central America.

The Program for Sustained Growth. Last October in Seoul Secretary Baker outlined a proposal for sustained growth which is often associated with his name. The sine qua non of this proposal is a more focused and determined effort at market-oriented structural reform aimed at greater efficiency, more domestic saving, and a more attractive climate for domestic and foreign investment.

If, and that is a big if, the debtor countries adopt measures consonant with economic growth, the World Bank, other international financial institutions, and the commercial banks will be able to support their reforms with significant new financing. A key element would be wider use of sectoral and structural adjustment loans of the World Bank. We also believe that under certain conditions the IDB could do more along these lines.

There is reason to expect a number of debtors to follow the outlines of this process to deal with the crucial symptoms of the debt problem: capital flight and slow growth.

These approaches to trade and debt are in harmony with lessons from the Alliance for Progress. They will work only if both the Latin American countries and the industrialized nations respond to the challenges and opportunities they face and if they avoid overreliance on aid and statist solutions.

Conclusion

Earlier I noted the differences between the Latin America of 1961 and the Latin America of today. I also noted some of the similarities. One common characteristic of that period and this one is the fact that now, as then, the United States must have a sustained, consistent, and attentive bipartisan policy toward the region. Both the alliance and our current policy recognize that a consistent and a sustained effort by the United States and by the nations of Latin America—in partnership—is a necessary condition for success.

The greatest contribution of the alliance is the confidence that if we work together to solve our problems, we can overcome them. Those of you who formed the alliance taught us this. From you we have learned to cope with the problems we face in the hemisphere. With your model of enthusiasm and spirit, we can move forward with the assurance that we will achieve our shared goals. ■

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